

**REPORT OF THE AUDIT OF THE
FORMER CLAY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER CLAY COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Clay County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$6,907 from the prior year, resulting in excess fees of \$61,087 as of December 31, 2006. Revenues increased by \$54,428 from the prior year and expenditures increased by \$61,335.

Report Comments:

- 2006-01 The Former Sheriff Should Have Properly Monitored School Commissions
- 2006-02 The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- 2006-03 The Former Sheriff Should Have Deposited Public Funds Into Interest Bearing Accounts
- 2006-04 The Former Sheriff Should Have Maintained A Non-Governmental Donation Register

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Edward Jordan, Former Clay County Sheriff
The Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Clay County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2008, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable, Edward Jordan, Former Clay County Sheriff
The Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The Former Sheriff Should Have Properly Monitored School Commissions
- 2206-02 The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- 2006-03 The Former Sheriff Should Have Deposited Public Funds Into Interest Bearing Accounts
- 2006-04 The Former Sheriff Should Have Maintained A Non-Governmental Donation Register

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Clay County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 28, 2008

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	11,536	
Kentucky Body Armor Program		1,324	
Highway Safety Grant		4,452	
State Fees For Services:			
Finance and Administration Cabinet	\$	82,002	
Sheriff Security Service		19,815	
Telecommunications Tax		5,298	
Transporting Prisoners		535	107,650
Circuit Court Clerk:			
Fines and Fees Collected		6,953	
Court Ordered Payments		40	6,993
Fiscal Court			100,388
County Clerk - Delinquent Taxes			5,678
Commission On Taxes Collected			136,399
Fees Collected For Services:			
Auto Inspections		6,940	
Accident and Police Reports		74	
Arrest Fees		3,120	
Serving Papers		23,730	
Carrying Concealed Deadly Weapon Permits		8,378	42,242
Other:			
Penalties on Taxes Collected		29,639	
Election Commissioner		50	
Interest Earned		1,219	
Transporting Mental Patients		6,523	
Advertising Fees		5,138	
Donation		1,000	
Miscellaneous		137	43,706
Borrowed Money:			
Fiscal Court			40,000
Total Revenues			500,368

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries		\$	207,690
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Employee Benefits-

Employer's Share Social Security	\$	20,783	
Unemployment		<u>2,594</u>	23,377

Contracted Services-

Advertising		1,132	
Accounting Services		9,000	
Computer Service		<u>7,085</u>	17,217

Materials and Supplies-

Office Materials and Supplies		3,730	
Uniforms		5,380	
Telephone		<u>5,083</u>	14,193

Auto Expense-

Gasoline		32,822	
Maintenance and Repairs		<u>8,479</u>	41,301

Other Charges-

Dues		348	
Postage		1,631	
Evidence		291	
Bond		1,987	
Carrying Concealed Deadly Weapon Permits		6,120	
Other		6,250	
Bank Service Charge		16	
Refunds		1,566	
Transport Expense		144	
Storage For Vehicles		<u>900</u>	19,253

Capital Outlay-

Office Equipment			1,956
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Debt Service:

Fiscal Court Loan		<u>40,000</u>
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Total Expenditures

<u>364,987</u>

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Net Revenues		\$	135,381
Less: Statutory Maximum			<u>74,294</u>
Excess Fees Due County for 2006			61,087
Payments to Fiscal Court - April 16, 2007	\$	61,068	
- May 7, 2007		<u>19</u>	<u>61,087</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. State Forfeiture Account

The former Clay County Sheriff maintained an official bank account for monies obtained from seizures and sale of property used in illegal drug activities. The purpose of this fund was to purchase necessary equipment for operating the Sheriff's office. The beginning balance January 1, 2006 was \$13,741. Receipts for the period were \$4,002. Expenditures for the period were \$13,522. The balance of the drug forfeiture account as of December 31, 2006 was \$4,221. This amount is not included as excess fees.

Note 5. Tax Escrow Account

The former Clay County Sheriff maintained a tax escrow account that was used to deposit unrefundable duplicate payments and unexplained receipts. The beginning balance January 1, 2006 was \$853. Receipts for the year were \$76. The ending balance as of December 31, 2006 was \$929. The former Sheriff had \$585 in unexplained receipts in his 2005 tax account. According to KRS 393.090, property is presumed abandoned after three years, after which time the funds should be turned over to the Kentucky State Treasurer in accordance with KRS 393.110. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys.

Note 6. State Grant

On November 1, 2005, the Governor's Office For Local Development awarded \$1,324 to Clay County from the Kentucky Body Armor Program. The purpose of this grant was to purchase body armor for the former Sheriff's office. The former Sheriff had also received a donation of \$1,000 from Wal-Mart for the specific purpose of supplementing the grant. (Note 7). The beginning balance on January 1, 2006 was \$2,324. The former Sheriff expended \$2,324 during the year leaving a zero balance on December 31, 2006.

Note 7. Donation From Non-Governmental Entity

The former Clay County Sheriff's office received a donation of \$1,000 from Wal-Mart for the specific purpose of supplementing the grant from the Kentucky Body Armor Program. The donation was deposited into the former Sheriff's Body Armor Account and all funds were expended during the year.

Note 8. Highway Safety Program

The former Clay County Sheriff was awarded a highway safety mini-grant (Drunk Driving: Over the Limit-Under Arrest National Mobilization) in the amount of \$5,000 for the time period May 14, 2006 through September 30, 2006. The purpose of this grant was to help reduce alcohol-related crashes and to keep highway fatalities below last year's level. The monies received were for salary reimbursement to the deputies for overtime hours worked. The former Sheriff received \$4,452 and expended \$4,452.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 9. Equipment Lease

The office of the former Sheriff was committed to a lease agreement with Pitney Bowes for a postage meter and scale. The agreement requires a quarterly payment of \$489, which includes \$402 for equipment and \$87 for maintenance. The agreement was satisfied as of December 30, 2006.

Note 10. Subsequent Events

On February 2, 2007, the former Clay County Sheriff transferred \$4,221 from his State Forfeiture Account to the incoming Clay County Sheriff.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Edward Jordan, Former Clay County Sheriff
The Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Clay County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated April 28, 2008. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Clay County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Clay County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Clay County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2006-01 and 2006-02.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Clay County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as: 2006-03 and 2006-04

The former Clay County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Clay County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 28, 2008

COMMENTS AND RECOMMENDATIONS

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2006-01 The Former Sheriff Should Have Properly Monitored School Commissions

Tax commissions from the Clay County Board of Education were not returned to the former Sheriff's office in a timely manner. Tax commissions for January 2006 Oil and Gas were not returned until March 2007. Tax commissions totaling \$36,939 for November 2006 tax collections were not returned until January 16, 2007. The former Sheriff should have maintained a record that included the date the tax payment was deposited into the school's depository and the date the commission was returned so that he could have contacted the Board of Education if commissions were not returned timely.

Former Sheriff's Response: We contacted the local board several times in an attempt to collect this. We did start maintaining a record of this.

2006-02 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During the testing of expenditures and review of internal controls, we noted several significant deficiencies in the internal control structure that should have been strengthened.

- The former Sheriff should have appointed a person having no access to cash receipts or accounts receivable records to open incoming mail and to list all mail receipts. The list of mail receipts should have been compared to the cash receipts ledger and authenticated copies of deposit slips by an employee having no access to cash.
- The employee preparing checks should have been independent of purchasing and receiving. This employee should have also been independent of check preparation, cash receiving, purchasing, and receiving.
- The employee authorized to sign checks should have been independent of report preparation and approval for payment, check preparation, cash receiving, purchasing, and receiving.
- An employee independent of all payables, disbursing, cash, receiving and general ledger functions should have had custody of checks after signature and before mailing.

The former sheriff could have implemented the following compensating controls, which would have helped to offset the control weaknesses:

- The former Sheriff should have periodically reviewed the daily checkout sheet and daily bank deposit and compared to the receipts ledger. Any differences should have been reconciled. The former Sheriff should have documented this by initialing the documents.
- The former Sheriff should have periodically compared the accountant's bank reconciliation to the balance in the checkbook or bank. Any differences should have been reconciled. The former Sheriff should have documented this by initialing the documents.
- The former Sheriff should have required two (2) signatures on all checks written with one being the former Sheriff's signature.
- The former Sheriff should have done surprise cash counts on a regular basis.

By performing the above procedures, the internal controls could have been strengthened and could have reduced the potential for material misstatement.

CLAY COUNTY
EDWARD JORDAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(CONTINUED)

2006-02 The Former Sheriff's Office Lacked Adequate Segregation Of Duties (Continued)

Former Sheriff's Response: I did review the daily checkout sheet, daily bank deposits and compared to the ledger, however I did not document this. I did review the bank reconciliation periodically and compared to the checkbook, however I did not document this. I did do cash counts on a regular basis. I did not want two persons signing the checks due to small amount of cash in bank account. By doing this, I could keep up with it.

STATE LAWS AND REGULATIONS:

2006-03 The Former Sheriff Should Have Deposited Public Funds Into Interest Bearing Accounts

The former Sheriff's forfeiture and tax escrow accounts do not accrue interest. At the direction of the fiscal court, KRS 66.480 authorized the Sheriff's office to invest in but not limited to interest bearing accounts, which are insured by Federal Deposit Insurance Corporation or are collateralized. The former Sheriff should have deposited funds in accordance with KRS 66.480.

Former Sheriff's Response: We were not aware the forfeiture account was required to be interest bearing. We thought the escrow account was interest bearing.

2006-04 The Former Sheriff Should Have Maintained A Non-Governmental Donation Register

The former Sheriff received a donation from a non-governmental agency, which was used to supplement the Kentucky Body Armor Grant. The former Sheriff did not maintain a register for recording donations. KRS 61.310(8)(a) states, "A sheriff may accept a donation of money or goods to be used for public purposes of his or her office if the sheriff establishes a register for recording all donations that includes at a minimum: (1) the name and address of the donor, (2) A general description of the donation, (3) The date of acceptance of the donation, (4) The monetary amount of the donation, and (5) Any purpose for which the donation is given. The register shall constitute a public record, be subject to the provisions of KRS 61.870 to 61.884, and be made available to the public for inspection in the Sheriff's office during regular business hours. The former Sheriff should have maintained a donation register in accordance with KRS 61.310(8)(a).

Former Sheriff's Response: We did not realize this was required.

